

ORIGINAL

OPEN MEETING



0000140599

Arizona Corporation Commission

DOCKETED

NOV 27 2012

MEMORANDUM

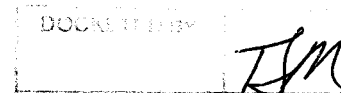
RECEIVED

TO: THE COMMISSION

2012 NOV 21 P 12:03

FROM: Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL



DATE: November 27, 2012

RE: IN THE MATTER OF THE APPLICATION OF QWEST CORPORATION DBA CENTURYLINK QC FOR APPROVAL TO CHANGE THE ACCOUNTING METHODOLOGY USED TO REPORT FOUR ACCOUNTING ISSUES TO THE ARIZONA CORPORATION COMMISSION (DOCKET NO. T-01051B-12-0431)

Introduction

On October 3, 2012, Qwest Corporation d/b/a CenturyLink-QC ("CenturyLink") filed an application for approval to change the Jurisdictional ("JR") accounting method used for four accounting issues reported to the Arizona Corporation Commission's ("Commission"). CenturyLink seeks the Commission's approval, pursuant to Arizona Revised Statutes ("A.R.S.") § 40-221 and § 40-222, to use Monthly Reporting ("MR") accounting for all accounting and reporting purposes effective January 1, 2012.

Background

The four accounting issues - known as Jurisdictional Differences ("JDs") - for which CenturyLink seeks to discontinue specialized ratemaking accounting are:

- Flow-through of unprotected excess deferred taxes;
- Depreciation rate differences;
- Depreciation amortization differences; and
- Allowance for Funds Used During Construction ("AFUDC") after 9/1/1995.

CenturyLink has applied Arizona ratemaking treatment to its accounting for these four JDs on an intrastate basis. Because the accounting for Arizona ratemaking is unique to a state's jurisdiction, the accounting basis is referred to by CenturyLink as Jurisdictional or JR accounting. CenturyLink seeks approval to discontinue Arizona JR accounting for the above four issues and to use the MR accounting used by the Federal Communications Commission ("FCC") and other states served by CenturyLink. CenturyLink currently reports all other accounting matters to the Commission using the MR accounting

The purpose of JR accounting has been to reflect state commissions' decisions regarding regulated utility accounting as it affects the determination of cost-of-service and rate base. Arizona is the only state in which JR accounting by CenturyLink remains in use.

Commission Decision No. 73354, dated August 21, 2012, classified CenturyLink's services as competitive under Arizona Administrative Code ("A.A.C.") R14-1108.¹ The Commission's decision specifically states, "CenturyLink shall not hereafter be required to make a rate case filing under Rule 103, unless the Commission makes a finding that CenturyLink's services are not competitive."² The JR issues arise out of full cost-of-service ratemaking proceedings filed under Rule 103 and are, therefore, only relevant to full cost-of-service proceedings.

CenturyLink's application states that its accounting systems cannot perform the JR accounting on an automated basis. "While the accounting system is capable of calculating JDs on a total state basis, intrastate JDs of the type maintained historically would have to be calculated manually. Additionally, there is no accepted methodology to calculate on a total state basis JDs that have always been maintained on an intrastate basis."³ Furthermore, "Discontinuing JR accounting at year-end 2011 is preferable to discontinuing it mid-year 2012 because year-end 2011 discontinuance allows results of operations for all of calendar year 2012 to be reported on a single, consistent basis of accounting, i.e., the MR accounting basis."⁴

Staff Analysis

Some regulatory commissions granted Qwest (CenturyLink predecessor) permission to discontinue JR accounting without conditions.⁵ However, some states granted permission subject to the condition that Qwest compute a standing rate base adjustment.^{6,7} The purpose of a standing rate base adjustment is to capture the difference in the rate base under the JR and MR bases of accounting on the date of conversion from JR to MR, so that this difference can be preserved, in the event it is determined to be relevant in any future cost-of-service ratemaking determinations.

¹ In the matter of the application of Qwest Corporation dba CenturyLink QC to classify and regulate retail local exchange telecommunications services as competitive, and to classify and deregulate certain services as non-essential; T-01051B-11-0378; October 13, 2011.

² A.A.C. R14-2-103: Defining Filing Requirements in Support of a Request by a Public Service Corporation Doing Business in Arizona for a Determination of the Value of Property of the Corporation and of the Rate of Return Thereon, or in Support of Proposed Increased Rates or Charges.

³ In the matter of the application of Qwest Corporation dba CenturyLink QC for approval to change the accounting methodology used to report four accounting issues to the Arizona Corporation Commission; T-01051B-12-0431; page 4.

⁴ In the matter of the application of Qwest Corporation dba CenturyLink QC for approval to change the accounting methodology used to report four accounting issues to the Arizona Corporation Commission; T-01051B-12-0431; page 4.

⁵ Idaho; Iowa; Minnesota; New Mexico; North Dakota; Oregon; South Dakota; Utah; Wyoming

⁶ Colorado; Montana; Nebraska; Washington

⁷ A standing rate base adjustment is an adjustment to rate base in a cost-of-service determination that equals the difference between the rate base computed on the original basis of accounting (in this case the JR basis) and the rate base computed on a new basis of accounting (in this case the MR basis) on the date the utility changes from using the original basis (JR) to the new basis (MR).

The value of a standing rate base adjustment for Arizona as of December 31, 2011 is a negative \$369,050,660.⁸ This standing rate base adjustment has the effect of reducing CenturyLink's intrastate Arizona rate base computed on the MR basis by \$369,050,660 and could be material should the Commission open a proceeding to return CenturyLink to rate of return (i.e., cost-of-service) regulation.

CenturyLink seeks Commission approval of its application pursuant to A.R.S. § 40-221 and § 40-222.

A.R.S. § 40-221: Power of commission to prescribe record-keeping methods and accounts; conformity with interstate commerce commission requirements; limitation on keeping of accounts states:

- A. The commission may establish a system of accounts to be kept by public service corporations, or classify the corporations and establish a system of accounts for each class, and prescribe the manner in which accounts shall be kept. It may prescribe the forms of accounts, records and memoranda to be kept, including the records of the movement of traffic as well as the receipts and expenditures of money, and any other records necessary to carry out the provisions of this article. The commission may prescribe the accounts in which particular outlays and receipts shall be entered, charged or credited.
- B. The system of accounts established or forms prescribed shall not, in the case of corporations subject to the regulations of the interstate commerce commission, be inconsistent with the systems and forms established for the corporations by the interstate commerce commission, but the corporation commission may prescribe forms of accounts, records and memoranda covering information in addition to that required by the interstate commerce commission.
- C. It shall be unlawful for any such corporation to keep any accounts, records or memoranda other than those prescribed by the commission, or those prescribed by or under the authority of any other state or of the United States, excepting such accounts, records or memoranda as shall be explanatory of and supplemental to the accounts, records or memoranda prescribed.

A.R.S. § 40-222: Depreciation accounting

The commission may, after hearing, require public service corporations to carry a proper and adequate depreciation account in accordance with regulations and forms of account it prescribes. It may ascertain and fix the proper and adequate rates of depreciation of the several classes of property for each, and each corporation shall conform its depreciation accounts to the rates so ascertained and fixed, and shall set aside the money so provided for out of earnings and carry such money in a depreciation fund and expend the fund, and

⁸ In the matter of the application of Qwest Corporation dba CenturyLink QC for approval to change the accounting methodology used to report four accounting issues to the Arizona Corporation Commission; T-01051B-12-0431; page 5.


the income therefrom, only for the purposes and under rules and regulations, both as to original expenditure and subsequent replacement, as the commission prescribes.

Staff's Conclusions and Recommendations

Commission Decision No. 73354 removes the need for CenturyLink to continue with historical JR accounting. Additionally, should the Commission find need for JR accounting information at a future date, Staff understands that CenturyLink could produce the information manually, though the effort could take "considerable effort" on the part of CenturyLink.⁹ Staff also believes it prudent to require that CenturyLink support and maintain a standing rate base adjustment for Arizona as of December 31, 2011.

Staff recommends approval of CenturyLink's application on the condition that CenturyLink:

1. Shall bear the full burden of producing JR accounting information if for any reason the Commission finds need for JR accounting information at a future date.
2. Shall support and maintain a standing rate base adjustment of negative \$369,050,660 for Arizona as of December 31, 2011.
3. Shall include the standing rate base adjustment information for Arizona as of December 31, 2011, in its yearly Utilities Annual Report beginning with its report for year ending 2012.



Steven M. Olea
Director
Utilities Division

SMO:AFF:sms\MAS

ORIGINATOR: Armando F. Fimbres

⁹ In the matter of the application of Qwest Corporation dba CenturyLink QC for approval to change the accounting methodology used to report four accounting issues to the Arizona Corporation Commission; T-01051B-12-0431; page 1.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
Commissioner

IN THE MATTER OF THE APPLICATION)
OF QWEST CORPORATION DBA)
CENTURYLINK QC FOR APPROVAL TO)
CHANGE THE ACCOUNTING)
METHODOLOGY USED TO REPORT)
FOUR ACCOUNTING ISSUES TO THE)
ARIZONA CORPORATION COMMISSION.)

DOCKET NOS. T-01051B-12-0431

DECISION NO. _____
ORDER

Open Meeting
December 11 and December 12, 2012
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. On October 3, 2012, Qwest Corporation d/b/a CenturyLink-QC ("CenturyLink") filed an application for approval to change the Jurisdictional ("JR") accounting method used for four accounting issues reported to the Arizona Corporation Commission's ("Commission").
2. CenturyLink seeks the Commission's approval, pursuant to Arizona Revised Statutes ("A.R.S.") § 40-221 and § 40-222, to use Monthly Reporting ("MR") accounting for all accounting and reporting purposes effective January 1, 2012.
- ...
- ...
- ...
- ...
- ...

1 Background

2 3. The four accounting issues - known as Jurisdictional Differences ("JDs") - for which
3 CenturyLink seeks to discontinue specialized ratemaking accounting are:

- 4 a. Flow-through of unprotected excess deferred taxes;
5 b. Depreciation rate differences;
6 c. Depreciation amortization differences; and
7 d. Allowed for Funds Used During Construction ("AFUDC") after 9/1/1995.

8 4. CenturyLink has applied Arizona ratemaking treatment to its accounting for these four
9 JDs on an intrastate basis. Because the accounting for Arizona ratemaking is unique to a state's
jurisdiction, the accounting basis is referred to by CenturyLink as Jurisdictional or JR accounting.

10 5. CenturyLink seeks approval to discontinue Arizona JR accounting for the above four
11 issues and to use the MR accounting used by the Federal Communications Commission ("FCC")
12 and other states served by CenturyLink. CenturyLink currently reports all other accounting
13 matters to the Commission using the MR accounting

14 6. The purpose of JR accounting has been to reflect state commissions' decisions
15 regarding regulated utility accounting as it affects the determination of cost-of-service and rate
16 base. Arizona is the only state in which JR accounting by CenturyLink remains in use.

17 7. Commission Decision No. 73354, dated August 21, 2012, classified CenturyLink's
18 services as competitive under Arizona Administrative Code ("A.A.C.") R14-1108.¹ The
19 Commission's decision specifically states, "CenturyLink shall not hereafter be required to make a
20 rate case filing under Rule 103, unless the Commission makes a finding that CenturyLink's
21 services are not competitive."² The JR issues arise out of full cost-of-service ratemaking
22 proceedings filed under Rule 103 and are, therefore, only relevant to full cost-of-service
23 proceedings.

24 ...

25
26
27 ¹ In the matter of the application of Qwest Corporation dba CenturyLink QC to classify and regulate retail local
exchange telecommunications services as competitive, and to classify and deregulate certain services as non-essential;
T-01051B-11-0378; October 13, 2011.

28 ² A.A.C. R14-2-103: Defining Filing Requirements in Support of a Request by a Public Service Corporation Doing
Business in Arizona for a Determination of the Value of Property of the Corporation and of the Rate of Return
Thereon, or in Support of Proposed Increased Rates or Charges.

8. CenturyLink's application states that its accounting systems cannot perform the JR accounting on an automated basis. "While the accounting system is capable of calculating JDs on a total state basis, intrastate JDs of the type maintained historically would have to be calculated manually. Additionally, there is no accepted methodology to calculate on a total state basis JDs that have always been maintained on an intrastate basis."³ Furthermore, "Discontinuing JR accounting at year-end 2011 is preferable to discontinuing it mid-year 2012 because year-end 2011 discontinuance allows results of operations for all of calendar year 2012 to be reported on a single, consistent basis of accounting, i.e., the MR accounting basis."⁴

Staff Analysis

9. Some regulatory commissions granted Qwest (CenturyLink predecessor) permission to discontinue JR accounting without conditions.⁵ However, some states granted permission subject to the condition that Qwest compute a standing rate base adjustment.^{6,7}

10. The purpose of a standing rate base adjustment is to capture the difference in the rate base under the JR and MR bases of accounting on the date of conversion from JR to MR, so that this difference can be preserved, in the event it is determined to be relevant in any future cost-of-service ratemaking determinations.

11. The value of a standing rate base adjustment for Arizona as of December 31, 2011, is a negative \$369,050,660.⁸ This standing rate base adjustment has the effect of reducing CenturyLink's intrastate Arizona rate base computed on the MR basis by \$369,050,660 and could be material should the Commission open a proceeding to return CenturyLink to rate of return

³ In the matter of the application of Qwest Corporation dba CenturyLink QC for approval to change the accounting methodology used to report four accounting issues to the Arizona Corporation Commission; T-01051B-12-0431; page 4.

⁴ In the matter of the application of Qwest Corporation dba CenturyLink QC for approval to change the accounting methodology used to report four accounting issues to the Arizona Corporation Commission; T-01051B-12-0431; page 4.

⁵ Idaho; Iowa; Minnesota; New Mexico; North Dakota; Oregon; South Dakota; Utah; Wyoming

⁶ Colorado; Montana; Nebraska; Washington

⁷ A standing rate base adjustment is an adjustment to rate base in a cost-of-service determination that equals the difference between the rate base computed on the original basis of accounting (in this case the JR basis) and the rate base computed on a new basis of accounting (in this case the MR basis) on the date the utility changes from using the original basis (JR) to the new basis (MR).

⁸ In the matter of the application of Qwest Corporation dba CenturyLink QC for approval to change the accounting methodology used to report four accounting issues to the Arizona Corporation Commission; T-01051B-12-0431; page 5.

1 regulation. CenturyLink seeks Commission approval of its application pursuant to A.R.S. § 40-221
2 and § 40-222:

3 A.R.S. § 40-221: Power of commission to prescribe record-keeping methods and accounts;
4 conformity with interstate commerce commission requirements; limitation on keeping of
5 accounts

6 a. The commission may establish a system of accounts to be kept by public service
7 corporations, or classify the corporations and establish a system of accounts for each
8 class, and prescribe the manner in which accounts shall be kept. It may prescribe the
9 forms of accounts, records and memoranda to be kept, including the records of the
10 movement of traffic as well as the receipts and expenditures of money, and any other
11 records necessary to carry out the provisions of this article. The commission may
12 prescribe the accounts in which particular outlays and receipts shall be entered, charged
13 or credited.

14 b. The system of accounts established or forms prescribed shall not, in the case of
15 corporations subject to the regulations of the interstate commerce commission, be
16 inconsistent with the systems and forms established for the corporations by the
17 interstate commerce commission, but the corporation commission may prescribe forms
18 of accounts, records and memoranda covering information in addition to that required
19 by the interstate commerce commission.

20 c. It shall be unlawful for any such corporation to keep any accounts, records or
21 memoranda other than those prescribed by the commission, or those prescribed by or
22 under the authority of any other state or of the United States, excepting such accounts,
23 records or memoranda as shall be explanatory of and supplemental to the accounts,
24 records or memoranda prescribed.

25 A.R.S. § 40-222: Depreciation accounting

26 The commission may, after hearing, require public service corporations to carry a proper
27 and adequate depreciation account in accordance with regulations and forms of account it
28 prescribes. It may ascertain and fix the proper and adequate rates of depreciation of the
several classes of property for each, and each corporation shall conform its depreciation
accounts to the rates so ascertained and fixed, and shall set aside the money so provided for
out of earnings and carry such money in a depreciation fund and expend the fund, and the
income therefrom, only for the purposes and under rules and regulations, both as to original
expenditure and subsequent replacement, as the commission prescribes.

12. Commission Decision No. 73354 removes the need for CenturyLink to continue with
historical JR accounting. Additionally, should the Commission find need for JR accounting
information at a future date, Staff understands that CenturyLink could produce the information

...

...

1 manually, though the effort could take "considerable effort" on the part of CenturyLink.⁹ Staff
2 also believes it prudent to require that CenturyLink support and maintain a standing rate base
3 adjustment for Arizona as of December 31, 2011.

4 13. Staff recommends approval of CenturyLink's application on the condition that
5 CenturyLink:

- 6 a. Shall bear the full burden of producing JR accounting information if for any reason the
7 Commission finds need for JR accounting information at a future date.
8 b. Shall support and maintain a standing rate base adjustment of negative \$369,050,660
9 for Arizona as of December 31, 2011.
10 c. Shall include the standing rate base adjustment information for Arizona as of December
11 31, 2011 in its yearly Utilities Annual Report beginning with its report for year ending
12 2012.

11 CONCLUSIONS OF LAW

12 1. CenturyLink is a public service corporation within the meaning of Article XV of
13 the Arizona Constitution.

14 2. The Commission has jurisdiction over CenturyLink and the subject matter in this
15 filing.

16 3. The Commission, having reviewed the filing and Staff's Memorandum dated
17 November 27, 2012, concludes that it is in the public interest to grant approval as proposed and
18 discussed herein.

19 ORDER

20 IT IS THEREFORE ORDERED that the application of Qwest Corporation d/b/a
21 CenturyLink-QC for approval to change the accounting methodology used to report four
22 accounting issues to the Arizona Corporation Commission pursuant to Arizona Revised Statutes §
23 40-221 and § 40-222 be and hereby is approved, as discussed herein.

24 IT IS FURTHER ORDERED that Qwest Corporation d/b/a CenturyLink-QC bear the full
25 burden of producing JR accounting information if for any reason the Commission finds need for
26 JR accounting information at a future date.

27
28 ⁹ In the matter of the application of Qwest Corporation dba CenturyLink QC for approval to change the accounting
methodology used to report four accounting issues to the Arizona Corporation Commission; T-01051B-12-0431; page
1.

1 IT IS FURTHER ORDERED that Qwest Corporation d/b/a CenturyLink-QC shall support
2 and maintain a standing rate base adjustment of negative \$369,050,660 for Arizona as of
3 December 31, 2011.

4 IT IS FURTHER ORDERED that Qwest Corporation d/b/a CenturyLink-QC shall include
5 the standing rate base adjustment information for Arizona as of December 31, 2011, in its yearly
6 Utilities Annual Report beginning with its report for year ending 2012.

7 IT IS FURTHER ORDERED that this Decision shall be become effective immediately.

8 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

9
10
11 CHAIRMAN

COMMISSIONER

12
13 COMMISSIONER

COMMISSIONER

COMMISSIONER

14
15 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
16 Executive Director of the Arizona Corporation Commission,
17 have hereunto, set my hand and caused the official seal of
18 this Commission to be affixed at the Capitol, in the City of
19 Phoenix, this _____ day of _____, 2012.

20 _____
21 ERNEST G. JOHNSON
22 EXECUTIVE DIRECTOR

23 DISSENT: _____

24 DISSENT: _____

25 SMO:AFF:sms/MAS
26
27
28

1 SERVICE LIST FOR: Qwest Corporation
2 DOCKET NO.: T-01051B-12-0431

3 Norm Curtright
4 Qwest Corporation d/b/a CenturyLink-QC
5 Associate General Counsel
6 20 E. Thomas Road, 1st Floor
7 Phoenix, Arizona 85012

8 Steven M. Olea
9 Director, Utilities Division
10 Arizona Corporation Commission
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Janice M. Alward
14 Chief Counsel, Legal Division
15 Arizona Corporation Commission
16 1200 West Washington Street
17 Phoenix, Arizona 85007

18 Lyn Farmer
19 Chief Administrative Law Judge, Hearing Division
20 Arizona Corporation Commission
21 1200 West Washington Street
22 Phoenix, Arizona 85007